

Flexible Spending Account Election of Reimbursement & Compensation Reduction Agreement

- Medical/Dental Expenses
- Dependent Care Expenses

When you elect a TPA for your University Health Care Plan, that TPA will be administering your FSA(s). Note: If you waive Health Care Plan coverage, Lifetime Benefit Solutions (FSA administrator for Excellus BCBS) will be the administrator of your FSA.

By electing a Flexible Spending Account (including a health care FSA, dependent care FSA, and limited purpose FSA), an employee and the University of Rochester hereby agree that cash compensation will be reduced by the amount(s) elected prorated for each pay period during 2015 (or during such portion of the year as remains after the date of this agreement).

It is understood that:

- The amount of compensation reduction for Dependent Care expenses for each pay period during the year will be credited to a Dependent Care reimbursement account for the year on the books of the University, and employees may be reimbursed, up to the balance in that account, for qualifying expenses incurred during the year provided that the qualifying expense was incurred while enrolled in the plan.
- The amount of compensation reduction for Medical/Dental expenses for each pay period will be credited to a Medical/Dental reimbursement account for the year on the books of the University, and employees may be reimbursed, up to the annual amount of compensation reduction, for qualifying expenses incurred during the year provided that the qualifying expense was incurred while enrolled in the plan.
- Reimbursement will be available only for qualifying expenses described in the FSA Brochure, and only if, provided under the employee's Reimbursement Plan. The employee agrees to notify the University if he/she has reason to believe that any expense for which reimbursement is obtained is not a qualifying expense. The employee also agrees on demand to indemnify and reimburse the University for any liability it may incur for failure to withhold federal and state income tax for Social Security tax from any reimbursement received of a nonqualifying expense, up to the amount of additional tax actually owed by the employee.
- Mid-year Flexible Spending Account enrollment must take place within 30 days of the date of hire or a qualified event. The employee cannot elect, change, or revoke the compensation reduction agreement at any time during the year unless experiencing a qualified event, such as marriage, divorce, death of a spouse or dependent, birth or adoption of a child, a change in the employment status of the employee (that affects eligibility of benefits), the employee's spouse, or dependent, or a change in health insurance coverage available through the spouse's employment. If the employee has a change in status that entitles a change to the agreement, he/she cannot reduce the elected amount for reimbursement of medical expenses below the amount of reimbursement already paid during the calendar year. The Plan Administrator, in its sole discretion and based on all the facts and circumstances, shall determine whether a requested change is appropriate and necessary as a result of a change in circumstances.
- The Plan Administrator may reduce or cancel the compensation reduction or otherwise modify the agreement in the event it is believed advisable in order to satisfy certain provisions of the Internal Revenue Code.
- The reduction in the cash compensation under the agreement shall be in addition to any reductions under other agreements or benefit plans.

The agreement is subject to the terms of the University of Rochester Flexible Spending Account (FSA) Reimbursement Plan(s) as from time to time in effect and revokes any prior election and compensation reduction agreement relating to the FSA Reimbursement Plan(s).

Eligible Dependents for the Flexible Spending Accounts

You can only claim reimbursement from the Flexible Spending Accounts for expenses incurred by your qualifying tax dependents. The definition of qualifying dependent for FSAs is different than the definition for purposes of your Federal tax return. The following section described the individuals who are eligible dependents for purposes of the FSAs.

For the Health Care FSA, eligible dependents include:

- Your spouse, if your marriage is recognized by state law in the state where you reside.
- Your biological child, stepchild, adopted child, child placed for adoption, or foster child (defined as a child placed with the employee by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction), until December 31st of the year in which he or she turns age 26. In the case of divorced or separated parents, a child is treated as a dependent of both parents.
- Your brother/sister, half-brother/half-sister, stepbrother/stepmother, or descendent of any such sibling (e.g., niece/nephew), or a descendent of your biological child, stepchild, adopted child, child placed for adoption, or foster child (e.g., grandchild),
 - Whose principal place of abode is your household for more than half of the calendar year (temporary absences due to special circumstances, e.g., illness, education, business, vacation, or military service, are disregarded),
 - Who is younger than you and is under 19 (or age 24 is a full time student) as of the end of the calendar year, or who is permanently and totally disabled regardless of age,
 - Who has not provided more than one-half of his or her own support* that year,
 - Who has not filed a joint tax return (other than only for claim or refund) with his or her spouse for the year, and
 - Who is a citizen or resident of the U.S., or resident of Canada or Mexico (there is an exception for adopted children).
 - In the case of divorced or separated parents, a child is treated as a dependent of both parents.
- Your relative (child described above or descendent of such child (e.g., grandchild), your sibling described above or descendent of any such sibling (e.g., niece/nephew), your parent, parent's ancestor (e.g., grandparent), stepparent, aunt/uncle, parent-in-law, son, daughter-in-law, brother/sister-in-law,
 - Who receives over half of his or her support* from you for the calendar year
 - Who is a citizen or resident of the U.S., or resident of Canada or Mexico (there is an exception for adopted children),
 - Who is not anyone else's Qualifying Child.
- Someone other than a spouse who has the same principal place of abode as you for the entire calendar year (temporary absences due to special circumstances, e.g., illness, education, business, vacation, or military service, are disregarded),
 - Who is a member of your household for the entire calendar year (and the relationship must not violate local law),
 - Who receives over half of his or her support* from you for the calendar year
 - Who is a citizen or resident of the U.S., or resident of Canada or Mexico (there is an exception for adopted children),
 - Who cannot be claimed as anyone else's Qualifying Child on their federal tax return.

**To determine whether you provide more than half of the total support for your relative or other person sharing your principal place of abode, you must compare the amount of support you provide with the amount of support the individual receives from all sources, including Social Security, welfare payments, the support you provide, and the support the individual provides from his or her own funds. Support includes food, shelter, clothing, medical and dental care, education, and similar expenses. If you believe you might provide more than half of the support for the individual, you should complete the support worksheet in IRS Publication 501 (Exemptions, Standard Deduction, and Filing Information). Please note that an individual could qualify as a tax dependent for purposes of the health benefits, but not on your tax return, if that individual earns more than \$3,650 (the exemption amount as defined in Code Section 151(d) for 2011), but still receives more than half of his or her support from you.*

Qualified Health Care Expenses

The employee may, if the Plan so provides, be reimbursed only for those types of health care expenses normally deducted on his/her federal income tax return (without regard to the percentage limitations in the Internal Revenue Code which are keyed to adjusted gross income). They include, for example, expenses incurred for:

- Prescription drugs, certain over-the-counter drugs, birth control pills and vaccines a doctor told the individual to take as part of a medical treatment program (not to meet normal nutritional needs or specifically identified as an exclusion).
- Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists and psychoanalysts (medical care only).
- Medical examination, x-ray and laboratory service, and insulin treatment.
- Nursing help. If payment is to do both nursing and housework, only the cost of the nursing help can be reimbursed.
- Hospital care (including meals and lodging), clinic costs, lab fees.
- Medical treatment at a center for drug addicts or alcoholics.
- Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, orthopedic shoes, crutches, wheelchairs, guide dogs and the cost of maintaining them.
- Ambulance service and other travel costs to get medical care. If a personal car is used, the cost of gas and oil to go to and from the place where care is received or the standard amount per mile allowed by the IRS may be claimed. Parking and tolls may be added to the amount claimed under either method.

Reimbursement cannot be obtained for:

- The basic cost of Medicare insurance (Medicare A).
- Life insurance or income protection policies.
- The hospital benefits tax withheld from pay as part of the Social Security tax or paid as part of Social Security self-employment tax.
- Nursing care for a healthy baby.
- Illegal operations or drugs.
- Travel a doctor told the individual to take for rest or change.
- Premiums paid for other health plan coverage, including premiums on individual policies or premiums paid for health coverage under a plan maintained by the employer of the participant's spouse or dependent.
- Vitamins taken to meet normal nutritional needs or as part of a self-imposed plan.
- Treatments and techniques that are cosmetic in nature, directed at improving the patient's appearance and does not meaningfully promote the proper function of the body or prevent or treat illness or disease.

Qualified health care expenses include only those expenses incurred for:

- The employee.
- His/her spouse.
- Any person that he/she could have listed as a dependent on his/her federal income tax return.

This is intended to provide general information only and not tax advice. IRS rules are subject to change at any time. For further information, consult a tax advisor or review IRS Publication 502, Medical and Dental Expenses, which has a checklist of medical expenses that can be deducted and therefore reimbursed under this Plan, and those that cannot.

For the Dependent Care FSA, eligible dependents include:

- Your biological child, stepchild, adopted child, child placed for adoption, or foster child, or a descendant of any such child, your brother/sister, half-brother/half-sister, stepbrother/stepsister, or descendent of any such sibling (e.g., niece/nephew),
 - Whose principal place of abode is your household for more than half of the calendar year (temporary absences due to special circumstances, e.g., illness, education, business, vacation, or military service, are disregarded),
 - Who is physically or mentally incapable of caring for himself or herself.

- Your biological child, stepchild, adopted child, child placed for adoption, or foster child (defined as a child placed with the employee by an authorized placement agency or by judgment, decree, or other order of any court of competent jurisdiction), or a descendent of any such child, your brother/sister, half-brother/half-sister, stepbrother/stepsister, or descendent of any such sibling (e.g., niece/nephew),
 - Whose principal place of abode is your household for more than half of the calendar year (temporary absences due to special circumstances, e.g., illness, education, business, vacation, or military service, are disregarded),
 - Who is under age 13,
 - Who has not provided more than one-half of his or her own support* that year,
 - Who is a citizen or resident of the U.S., or resident of Canada or Mexico (there is an exception for adopted children).
 - In the case of divorced or separated parents, a child is treated as a dependent of the custodial parent (the parent having custody for the greater portion of the calendar year) only.

- Your relative (child described above or descendent of such child (e.g., grandchild), your sibling described above or descendent of any such sibling (e.g., niece/nephew), your parent, parent's ancestor (e.g., grandparent), stepparent, aunt/uncle, parent-in-law, son/daughter-in-law, brother/sister-in-law, or someone other than a spouse who is a member of your household for the entire calendar year (and the relationship must not violate local law):
 - Whose principal place of abode is your household for more than half of the calendar year (temporary absences due to special circumstances, e.g., illness, education, business, vacation, or military service, are disregarded),
 - Who receives over half of his or her support* from you for the calendar year
 - Who is a citizen or resident of the U.S., or resident of Canada or Mexico (there is an exception for adopted children),
 - Who cannot be claimed as anyone else's Qualifying Child on their federal tax return,
 - Who is physically or mentally incapable of caring for himself or herself.

Qualified Dependent Care Expenses

Under the Plan, employees will be reimbursed only for dependent care meeting all of the following conditions:

1. The expenses are incurred for services rendered after the date of this election and during the Plan Year to which it applies.
2. The employee (and his/her spouse, if married) pay more than half the cost of maintaining a home (including an apartment) for the dependent who is receiving care.
3. Each individual for whom the employee incurs the expense is:
 - a. a dependent under the age 13 whom the employee is entitled to claim as a dependent on his/her federal income tax return, or
 - b. a spouse or other tax dependent who is physically or mentally incapable of self-care.
4. The expenses are incurred for the care of a dependent described above, or for related household services, and are incurred to enable the employee to be gainfully employed.
5. If the expenses are incurred for services outside the employee's household, they are incurred for the care of a dependent who is described in 3(a) above, or who regularly spends at least eight hours per day in the employee's household.
6. If the expenses are incurred for services provided by a dependent care center (i.e., a facility that provides care for more than six individuals not residing at the facility), the center must comply with all applicable state and local laws and regulations.

7. The expenses are not paid or payable to a child of the employee who is under the age 19 at the end of the year in which the expenses are incurred.
8. The expenses are not paid or payable to an individual for whom the employee or his/her spouse is entitled to a personal tax exemption as a dependent.
9. The reimbursement (when aggregated with all other reimbursements received by the employee under the Plan during the same year) may not exceed the lowest of the following limits:
 - a. Employer set limit.
 - b. The employee's taxable compensation (after the reduction agreed to below).
 - c. If married, the spouse's actual or deemed earned income.

For purposes of paragraph 9(c) above, an employee's spouse will be deemed to have earned income of \$200 (\$400 if you have two or more dependents), for each month in which the spouse is (i) physically or mentally incapable of caring for himself or herself, or (ii) a full-time student at an educational institution.

NOTE: The IRS maximum amount is \$5,000 per family (\$2,500 for married couples filing separate tax returns) per Plan Year for Dependent Care reimbursement.

Federal Child Care Tax Credit vs. Dependent Care Reimbursement

In general, if the employee has dependent care expenses he/she has two choices for tax purposes. First, he/she can participate in the Plan, which allows reimbursement for such expenses with pre-tax contributions to the Plan. Second, the employee can take a tax credit for a portion of such expenses by claiming the dependent child care tax credit on his/her tax return. The dependent child care tax credit is a direct reduction in tax based on income and child care expenses. The credit is an amount equal to the employee's dependent care expenses multiplied by 35 percent. The 35 percent figure is reduced (but not below 20 percent) by 1 percentage point for each \$2,000 (or fraction of \$2,000) gross income exceeds \$15,000. Please carefully consider whether it would be more advantageous to participate in the Plan or take advantage of the dependent child care tax credit.